

Lesson 14.1 The Economics of Price Decisions

LESSON QUIZ

Directions: For each of the following statements, if the statement is true, write a T on the answer line; if the statement is false, write an F on the answer line.

- F 1. The lowest price is always the best price for every customer.
- T 2. Price is an important tool for marketers because it can be changed much more quickly than other marketing decisions.
- T 3. Price allocates available resources among people.
- F 4. If sales increase, profits will increase as well.
- F 5. If you lower the price of your product, you will sell a larger quantity of the product.
- T 6. In the United States, it is illegal for two competing companies to agree on the amount they will charge for products or services.
- T 7. It is illegal for a business to lure a customer into a store by offering a low price and then telling the customer that the low-priced product is unavailable.

Directions: For each of the following items, decide which choice best completes the statement. Write the letter that identifies your choice on the answer line.

- D 8. Value is added to a product when
 - A. it is available in a location that is more convenient for consumers
 - B. it is available during more convenient hours
 - C. it is modified to become more useful
 - D. all of the above
- B 9. The relationship between changes in a product's price and the demand for that product is known as
 - A. equilibrium price
 - B. elasticity of demand
 - C. economic utility
 - D. price/demand ratio
- A 10. In a private enterprise economy, governments
 - A. encourage activities that benefit society
 - B. determine product prices
 - C. prevent companies from growing
 - D. all of the above

Activity 1 • Business Information

Directions: Pricing strategies are used every day by businesses to attract attention and gain customers. Look at a local newspaper and clip five advertisements that use price as part of the promotional strategy. Mount each advertisement on a separate sheet of paper and provide the following information for each ad.

Answers will vary.

1. Name of the business
2. Item being advertised
3. Target market for this item
4. Type of competition for this item
5. Type of pricing techniques used

Directions: Locate five advertisements that use non-pricing strategies. Clip and mount these ads on separate sheets of paper and provide the following information:

Answers will vary.

1. Name of the business
2. Item being advertised
3. Target market for this item
4. Type of competition for this item
5. Unique quality of the item that is being advertised

Activity 2 • It's the Law

Directions: Using the library or Internet, research two laws that relate to pricing of products by businesses. Answer the following questions.

Answers will vary.

Name of the law: _____

Date the law was enacted: _____

Purpose of the law: _____

Is the law still in existence? _____

How does the law help businesses? _____

How does the law help consumers? _____

Name of the law: _____

Date the law was enacted: _____

Purpose of the law: _____

Is the law still in existence? _____

How does the law help businesses? _____

How does the law help consumers? _____

Lesson 14.2 Developing Pricing Procedures

LESSON QUIZ

Directions: For each of the following statements, if the statement is true, write a T on the answer line; if the statement is false, write an F on the answer line.

- T 1. Companies that want to maximize profits study consumer demand to determine what customers in the target market are willing to pay for their products.
- T 2. Sales-based pricing objectives set prices to achieve the highest possible sales volume.
- F 3. A company that does not post prices with its product is trying to appeal to cost-conscious customers.
- F 4. A campaign using rebates and coupons will result in reduced profits for the company.
- T 5. A business that charges low prices risks creating an image of lower-quality products.
- T 6. A company can determine the minimum price by performing a breakeven analysis.
- F 7. Fixed costs are determined by the quantity of the product that is produced or sold.

Directions: For each of the following items, decide which choice best completes the statement. Write the letter that identifies your choice on the answer line.

- C 8. At the breakeven point, a company
 - A. maximizes profits
 - B. needs to increase its price
 - C. matches total costs and total revenues
 - D. suffers the greatest losses
- D 9. Markdowns
 - A. are usually viewed as a business mistake
 - B. can be expressed as a specific dollar amount or as a percentage of the original selling price
 - C. are used when products are not selling well
 - D. all are correct
- A 10. _____ is an amount added to the cost of a product to determine the selling price
 - A. Markup
 - B. Gross margin
 - C. Operating costs
 - D. Net profit

Activity 1 • Calculating Costs

Directions: Use the following information to answer the questions below.

Sierra has opened a small business in her home designing T-shirts. The current selling price is \$28.

Costs of Goods Sold for Each Shirt	
Shirts	\$8
Related materials	4
Ironing and sewing	2

Monthly Fixed Costs	
Rent	\$100
Utilities	30
Transportation	25
Postage	30
Miscellaneous	20

Sales Last Year	
Month	Units Sold
January	15
February	20
March	25
April	50
May	75
June	15
July	18
August	5
September	20
October	250
November	225
December	15

What is Sierra's total revenue?

\$20,524 (733 shirts \times \$28 per shirt)

What is the total cost of goods sold?

\$10,262 (733 \times \$14 per shirt)

What is the gross margin?

\$10,262 (\$20,524 – \$10,262)

What are the total fixed costs for the year?

\$2,460 (\$205 per month \times 12 months)

What is Sierra's net profit?

\$7,802 (\$10,262 – \$2,460)

What is the breakeven point?

176 units [\$2,460 \div (\$28 – \$14)]

What is the markup as a percentage of the selling price?

50% (\$14 \div \$28)

What is the markup as a percentage of cost?

100% (\$14 \div \$14)

Lesson 14.3 Pricing Based on Market Conditions

LESSON QUIZ

Directions: For each of the following statements, if the statement is true, write a T on the answer line; if the statement is false, write an F on the answer line.

- T 1. The type of competition faced by a product changes throughout the stages of its life cycle.
- T 2. During the introductory stage, only one brand of a new product is available allowing the business a great deal of control over the price.
- F 3. A penetration price usually results in higher profits for the company but encourages other companies to enter the market.
- F 4. In later stages of the life cycle, competition decreases with less emphasis on price competition.
- T 5. Intensive price competition is a characteristic of both staple convenience goods and price-based shopping goods.
- F 6. "FOB factory" means the manufacturer will pay all transportation costs from the point where the product is manufactured to the location of the customer.
- T 7. With zone pricing, different product or transportation costs are set for specific areas of the seller's market.
- T 8. Coupons and rebates are examples of discounts and allowances used by businesses.

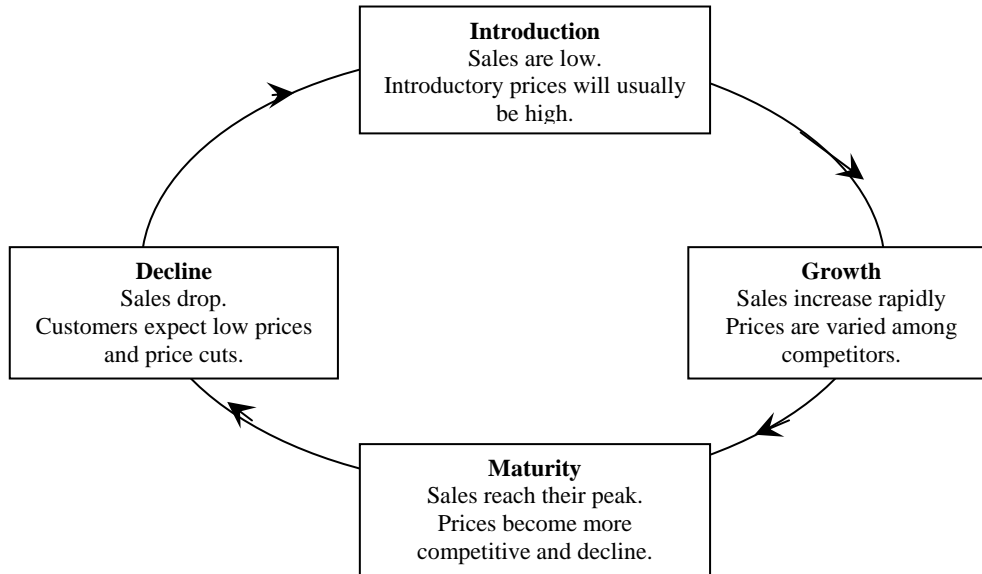
Directions: For each of the following items, decide which choice best completes the statement. Write the letter that identifies your choice on the answer line.

- B 9. Distinct categories of prices based on differences in product quality and features are
 - A. skimming prices
 - B. price lines
 - C. geographic prices
 - D. discounts and allowances
- D 10. A business can change the perception of the value of a product by
 - A. making additions to the purchase
 - B. offering a special deal such as "buy one, get one free"
 - C. offering an incentive for making a purchase
 - D. all are correct
- B 11. Credit offered by one business to another is
 - A. retail credit
 - B. trade credit
 - C. flexible pricing
 - D. illegal

Activity 1 • Changing Sales and Prices

Directions: Create a flow chart that identifies the stages in a product's life cycle. Include a description of what to expect from sales and prices in each stage.

Answers will vary.



Activity 2 • Managing Price Strategies

Directions: The product life cycle helps marketers determine how to price their products based on competition and the uniqueness of the products. Your company has developed a unique new sunscreen product. It is guaranteed to last all day. It is waterproof, odorless, colorless, and will not wipe off or stain clothing. The following chart describes four different market scenarios. For each scenario, complete the chart by determining what stage of the life cycle the sunscreen is in and what type of pricing strategy would be appropriate.

Market Description	Life-Cycle Stage	Pricing Strategy
Customers love your product and buy it. Competitors rush to introduce similar products.	<i>Growth</i>	<i>Keep price high for as long as possible but be prepared to reduce it as competition increases.</i>
Your company has the only product of its type in the market, and it is positioned as a “premium” product.	<i>Introduction</i>	<i>Set a high “skimming” price to match the high-quality, unique product image.</i>
A new “organic” product is introduced that is promoted as better than sunscreen. Customers begin to try it and your sales take a hit.	<i>Decline</i>	<i>Try to hold prices to retain loyal customers but offer coupons to keep sales as high as possible while you work to improve your product.</i>
With many brands available, you find competitors offering coupons and increasing their distribution.	<i>Maturity</i>	<i>Competitively price your product but focus on protecting image and target market loyalty.</i>